

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6099

BILL NUMBER: SB 357

DATE PREPARED: Jan 28, 1999

BILL AMENDED: Jan 28, 1999

SUBJECT: Interstate commerce exemption for inventory tax.

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FUNDS AFFECTED: **GENERAL
DEDICATED
FEDERAL**

IMPACT: Local

Summary of Legislation: (Amended) This bill provides that a manufacturer or processor that possesses property held for transshipment to an out-of-state destination may claim certain interstate commerce exemptions from the property tax imposed upon inventory if the manufacturer or processor is able to show that the owner of the property would otherwise have been qualified for the exemption.

Effective Date: January 1, 2000.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) Under current law, finished goods inventory owned by a manufacturer or processor is exempt from property taxation if the property is stored in its original package and will be shipped to another state. Certain other inventory property that is stored in an Indiana warehouse and will be shipped to another state is also currently exempt. The *owner* of this property must file an Indiana property tax return and exemption claim in order to receive the exemption.

Under this proposal, the *possessor* of the inventory would be able to claim the exemption if: 1) the assessed value of the inventory is included in the *possessor's* property tax return, and 2) the *owner* would have qualified for the exemption under current law.

The bill would allow the *possessor* of the property to file one property tax return for all of the non-owned property in their possession and claim the same exemptions on the same property to which the *owners* are currently entitled, if they so desire.

Since, under the proposal, the *owner* must qualify for the exemption before the *possessor* may claim it, the bill would have **no real fiscal impact**. There are two situations, that as a practical matter, could have an insignificant impact.

1. If an *owner* who would currently qualify for the exemption does not file an Indiana property tax return or exemption claim, and if the property has been assessed to the *possessor* because there is no contract stating that the *owner* is responsible for the tax, then the *possessor* may receive an exemption for property on which they are currently paying taxes. It is important to note that the owner could claim this exemption if they would only file the property tax form and exemption claim. Even though there could be a practical fiscal impact, there would not be any fiscal impact in a legal sense as the property could now be exempt.

2. Currently, if an owner cannot specifically identify the inventory that will be shipped out of state, the owner may use an allocation factor based on previous in-state and out-of-state sales. If, under this bill, the *possessor* claims the exemption and uses the *possessor's* allocation factor instead of the *owner's* factor, then the percentage of the property that is exempt could change. The extent of the change in allocation factors is unknown, but each factor could go higher, lower, or stay the same. This would only be of concern if the actual inventory destined for out-of-state could not be identified.

Overall, if there is any fiscal impact to this bill it should be insignificant. There would be no change to local revenues in any case.

State Agencies Affected: State Board of Tax Commissioners.

Local Agencies Affected: Local Assessing Officials.

Information Sources: